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Remarks

To 16: Attached is draft Presidential remarks for Monday, 23, Sept. If you have any comments, please let me know as soon as possible this morning.

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Executive Secretary

20 Sep 85

Date

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Executive Registry

September 19, 1985
12:30 p.m.

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**PRESIDENTIAL ADDRESS: PRESIDENT'S EXPORT COUNCIL
MONDAY, SEPTEMBER 23, 1985**

Well, thank you all and welcome to the White House. I'm pleased to have this opportunity to be with you to address the pressing question of America's trade challenge for the eighties and beyond.

My views on this subject were shaped by what I consider a principle for eternity borne out by the great and terrible events of this century: the freer the flow of world trade, the stronger the tides for human progress and peace among nations.

I saw this principle borne out in 1930, when America tried in vain, through the trade-killing Smoot-Hawley tariff, to swim against the tides of history. The result, swift and sure, was a trade war so terrible, it dragged down all the nations of the world into the Great Depression.

And I have also seen this principle borne out in happier times -- after World War II, when the United States helped create an international trading and financial system limiting Government's ability to disrupt trade.

At a moment in history when citizens across the world hungered for leadership, America stepped forward to become a great and powerful magnet for progress. We helped improve, dramatically, the well-being of millions; we led the drive for democracy and peace; we showed the world we are a generous and united people who conquer fear with faith, who overcome poverty

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with growth, and who defeat violence with opportunity and freedom -- and, yes, we remain that same people today.

Consider the stark and inescapable contrast: on one side, the freedom we enjoy -- to own property, to produce, sell and trade goods -- continues to shine its golden promise of hope for millions; while on the other, communism, which survives and thrives only through fear, repression, and violence, continues to darken whatever lands it controls with an unpardonable, unending wreckage of human lives and dreams.

Because we live for freedom, because we have enshrined the principle of free trade with the most open trading policies on Earth, the United States is the world's largest trader; we are the world's largest exporter; we are the world's most prosperous Nation -- and by keeping faith with that principle, we will remain the world's most successful and prosperous Nation.

I don't have to convince you what benefits free trade brings us: you know that our living standards are higher thanks to greater productivity as we specialize in what we do best; that consumers enjoy wider choices and more competitive prices from their access to raw materials and industrial products overseas; that half a trillion dollars worth of goods and services were added to our GNP from trade last year; and that exports account for 2 of every 5 acres of farm crops planted, and 1 out of every 5 jobs in our economy.

Impressive as these figures are, free trade is even more indispensable as a vessel for change -- change in the form of knowledge and equipment enabling America's workforce to modernize

older industries; to develop sunrise technologies; to push forward the frontiers of space, and to become entrepreneurs guiding us through a minefield of challenges into the 21st century.

We are seeing such a revolution right now. With tax policies encouraging record risk-taking and growth, with open markets accelerating the transformation of our economy, America's optimistic spirit is finally bursting free. We are creating a modern miracle unmatched by any other people, anywhere in the world.

Computer technologies, the leading catalyst of the Information Age, the leading wedge of productivity gains, have become our national growth industry number one. Led by thousands of new software firms, exports of computers are exploding. We've had a 200-fold increase in venture capital commitments, record business starts, a 60-percent increase in companies listed over-the-counter in the stock market, and, in these last 33 months, 8 million new jobs created and employment reach its highest level in history. A new American economy is being born -- an economy of hope, an economy of the future, an economy of immense opportunity where people can prosper and live in peace.

And, yet, cracks have begun to appear in the foundation of our international trading system. I recently had to reject a request for quotas on footwear imports; it would have cost American taxpayers \$3 billion, the equivalent of \$26,000 to protect each \$14,000 job. For some, it's become quite popular to

Page 4

ridicule free trade. A great hue and cry is rising in our land -- the cry of a bunker mentality that would raise the drawbridge and close our markets. It troubles me deeply, for it evokes a haunting echo from the Great Depression.

It seems easier to repeat, like an incantation, that trade deficits are bad, than to reflect seriously on this issue. The trade deficit, we are told, is a sure sign of economic weakness. Well then, how did America have deficits almost every year between 1790 and 1875, the very period we became a major industrial power?

The trade deficit, we are told, cost us over 3 million jobs. Well then, how has America created jobs faster than any other nation, and twice as fast as countries with surpluses, including Japan. Now, during those years of the Smoot-Hawley tariff, we did enjoy trade surpluses. But we also had a 25-percent unemployment rate.

Nor has our share of world exports declined. In 1980, our share was just below 12 percent. By 1984, it was just over 12 percent. The truth is, we have a large trade deficit primarily because our economy is much stronger than other economies, and our people have more buying power. And we have large capital inflows offsetting that trade deficit because our incentives and ability to control inflation make us the best and safest investment in the world.

We must work aggressively to pry open the barriers blocking American exports wherever they exist. But we must also face up to the enormous imbalance in world growth. For example, the

Page 5

economies of Asia have grown and increased their collective imports by 20 percent between 1980-84.

But, burdened by tariffs and quotas, marginal tax rates that can reach 70-80 percent on very modest incomes, and in some instances, policies of deliberate austerity, many economies in Europe, Africa, and Latin America have stagnated during this same period. With after-tax income low and unemployment high, their people simply cannot afford to buy our products.

That's why in Europe imports have dropped by 15 percent, in Africa by 21 percent, and in Latin America by 34 percent. Anemic growth is every bit as much a barrier to trade as quotas and tariffs are.

We need to address these problems on three different fronts: First, free trade must, by definition, mean fair trade for all. If trade is not fair for all, then free trade will be destroyed. We are not about to stand by and permit any nation to take unfair advantage of the American worker. We are mindful of the difficulties some industries face in a changing world economy. And we are committed to helping displaced workers adjust to industries that are healthy and growing. But our commitment will not rest there.

The United States' support of open markets does not absolve other nations from their obligation to dismantle trade barriers, eliminate subsidies or any other form of unfair trade practice. America has never been afraid to compete. When trade follows the rules, and there is equal opportunity to compete, American business is as competitive as any. This is fair trade and we

shall not impair it. When these conditions do not exist, it is unfair trade and we shall fight it.

Under authority granted by the Trade Act of 1974, we are the first Administration in history to initiate investigations and take action to counter unfair practices in so-called 301 cases. Those cases include: a Korean law that prohibits fair competition of U.S. life and fire insurance firms; a Brazilian law that restricts U.S. exports of advanced technology products; and, Japanese restrictions against U.S. tobacco products.

We're also accelerating our efforts to open up Japanese markets in leather products and challenging the European community's subsidies on canned fruit.

Our Administration is intensifying efforts to preserve intellectual property rights -- I'm speaking here about patents, copyrights, and trademarks -- and we will not hesitate to take action in this area.

The U.S. is also going forward with what we call MOSS -- market-oriented sector selective -- discussions with Japan. We're placing time limits on discussions now underway and then we'll evaluate the commitments made and begin follow-up procedures. New sectors that may promise expanded exports will also be added.

aimed mostly at France
Finally, I've asked the Secretary of the Treasury to establish a "war chest" of \$300 million to dissuade our trading partners from unfairly subsidizing their exports. And let me say here that I believe Prime Minister Nakasone is a man of honor who is working in good faith to resolve our differences.

Our second major initiative will be to promote multilateral and bilateral trade negotiations for freer world trade. We should all be competing to lower trade barriers, not to raise them. If each of us gives a little, all of us can gain a lot.

So we intend to launch a new negotiating round of the GATT. We will seek to improve access for our agricultural products and address newer forms of international trade problems, including intellectual property protection, service trade, and investment issues. If the need arises, we will explore possible bilateral and multilateral negotiating opportunities. I am also willing, if Prime Minister Mulrooney agrees, to explore the possibility of a free trade arrangement with Canada.

Our third major initiative must be stronger world growth. Controlling spending is key. And our tax rate reductions have been so successful, I'm convinced we need more. Nothing could help make us more competitive in world markets than to pass, this year, America's tax plan to lower rates for every income group and businesses large and small. If we do, we can make our marginal tax rates the lowest on Earth, we can leapfrog our competitors, we can out-produce and out-sell anybody, anywhere in the world.

A recent Federal Reserve Board suggests that there is ample room for greater noninflationary growth in Europe. Where necessary, we will be asking all nations to lower high tax rates, and to remove other impediments to a freer flow of goods, services, labor, and capital. If they refuse, they will not only

be depriving their own citizens of opportunity, but eroding the entire fabric of the world economy and trading system.

Two other initiatives that can invigorate world growth will be to strengthen the international monetary system, by considering the value of hosting a meeting to build upon reforms suggested by the Group of Ten; and, to encourage debt burdened economies to substitute capital for debt through greater domestic and foreign investment.

Working together, there is so much we can accomplish. We can make real headway for prosperity and peace -- with policies that improve the performance of our economies, reduce or eliminate wild swings in currency markets, lift up the volume of world trade, and create millions of new jobs for people all over the globe. This is our commitment.

But if our cooperation is held hostage to destructive legislation that imposes new tariffs, or that closes our markets, then there will be no progress. A new spectre will loom on the horizon, a spectre of collapse bringing us ever closer to another nightmare, another Great Depression.

You know, one advantage of having celebrated your 39th birthday as often as I have is that you see some of the great events in history. I remember in 1929 that the stock market began sliding as Smoot-Hawley still was being debated. It crashed before the legislation passed. Over a thousand economists wrote to President Hoover begging him to veto that bill. But he signed it, and the stock market was jolted again.

Today, not one responsible economist believes that the Son of Smoot-Hawley bills would be beneficial.

I don't like the word "protectionist." It carries the germ of George Orwell's 1984. Who is not in favor of protecting our economy? But so-called protectionist measures will not protect anything. They won't protect consumers against rising prices that trade barriers bring; they won't protect farmers from losing their markets and getting wiped out; they won't protect working people whose jobs depend on other exports from being thrown out on the street by retaliatory actions; and, no, they won't protect us from a panic in the financial community -- as Koreans, Brazilians, and others denied access to our markets can no longer repay their loans.

Protectionist bills are growth-busting bills. And passing protectionist bills is playing with fire; it is pouring kerosene on the international trading system, and inviting someone else to light a match and set the whole system in flames. I am not President Hoover. I will not hesitate to veto any such legislation that crosses my desk.

We will oppose any and all unfair trading practices. But we do not want to stop other nations from selling goods in the United States; we want to sell more of our goods to other nations. We do not dream of protecting America from others' success; we seek to include everyone in the success of the American dream.

Another decisive moment in our history is upon us. The question is: will foolish passion once again set this nation

adrift in a sea of confusion and misfortune? Or will we lead the world on to the high tide of free trade toward open markets and greater prosperity for all?

I have made my decision, and I am ready to make my stand. I ask you to stand with me. I ask for your support. And I ask for your strength. Unite with us, and together we will make these coming years the greatest America has ever known.

Thank you and God bless you all.